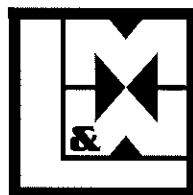


NORTH CADDO HOSPITAL SERVICE DISTRICT

COMBINED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2014, 2013, AND 2012



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
YEARS ENDED JUNE 30, 2014, 2013, AND 2012

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NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of North Caddo Hospital Service District's, d/b/a North Caddo Medical Center (the Hospital) financial performance provides an overview of the Hospital's financial activities during the fiscal year ended June 30, 2014. Because of the significance of operations and the financial relationship with the Hospital, the North Caddo Medical Center Foundation (the Foundation) is combined in the financial reports with the Hospital. Collectively, the Hospital and Foundation are hereafter referred to as the "Medical Center." Please read this analysis in conjunction with the Medical Center's financial statements, which begin on page 4.

Financial Highlights

- The Medical Center's total assets increased in each of the past 3 years by approximately \$7.9 million or 66.4% in 2014, \$1.4 million or 13.3% in 2013 and \$3.1 million (41.6%) in 2012.
- The Medical Center reported a decrease in operating income in 2014 of \$541,000, or -96.8%, compared to a decrease of \$1,536,000, or -157.1% and increase of \$1,244,000 (467.2%) in 2013 and 2012, respectively.
- Noncapital grants and contributions increased \$154,000 or 11.2% in 2014, compared to increases of \$490,000 (55.2%) and \$724,000 (440.2%) in 2013 and 2012, respectively.
- A new 25-year 1% sales tax was approved by voters in 2012 and the Medical Center received approximately \$1,300,000 in sales taxes in 2014 compared to \$1,272,000 in 2013. This sales tax revenue is pledged as security for bond financing and will be used to fund construction of a new hospital building.

Using This Annual Report

The Medical Center's financial statements consist of three statements - a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the Medical Center finances begins on page ii. One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the Medical Center's resources and about its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in them. You can think of the Medical Center's net position - the difference between assets and liabilities - as a way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base and measures of

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

the quality of service it provides to the community, changes in Medicare and Medicaid regulations, and changes in managed care contracting as well as local economic factors to assess the overall health of the Medical Center.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the combined statements of net position on page 4. The Medical Center's net position increased in each of the past three years, by approximately \$797,000 (10.6%) in 2014, \$1,340,000 (21.6%) in 2013, and \$1,573,000 (33.9%) in 2012, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Position (In Thousands)

	June 30,			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total current assets	\$ 8,777	\$ 6,800	\$ 6,386	\$ 5,393
Capital assets, net	8,818	4,864	4,029	1,979
Unamortized loan costs	-0-	-0-	22	10
Other assets	2,141	196	30	9
Total assets	<u>\$ 19,736</u>	<u>\$ 11,860</u>	<u>\$ 10,467</u>	<u>\$ 7,391</u>
Total current liabilities	\$ 4,358	\$ 2,811	\$ 2,186	\$ 1,901
Long-term debt, net of current maturities	7,029	1,497	2,069	851
Total liabilities	<u>11,387</u>	<u>4,308</u>	<u>4,255</u>	<u>2,752</u>
Net position:				
Invested in capital assets, net of related debt	1,132	2,769	1,352	863
Temporarily restricted net assets	2,116	167	-0-	-0-
Unrestricted net assets	5,101	4,616	4,860	3,776
Total net position	<u>8,349</u>	<u>7,552</u>	<u>6,212</u>	<u>4,639</u>
Total liabilities and net position	<u>\$ 19,736</u>	<u>\$ 11,860</u>	<u>\$ 10,467</u>	<u>\$ 7,391</u>

A significant component of the change in the Medical Center's assets is an increase in capital assets (see Table 5). Cash and cash equivalents increased by approximately \$647,000 in fiscal year 2014.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results and Changes in the Medical Center's Net Position

The following table presents a summary of the Medical Center's historical revenues and expenses for the fiscal years ended June 30, 2014, 2013, 2012 and 2011.

Table 2: Operating Results and Changes in Net Position (In Thousands)

	Years Ended June 30,			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net patient service revenue	\$ 15,503	\$ 14,616	\$ 15,514	\$ 13,991
Noncapital grants	1,532	1,378	888	164
Other revenue	<u>88</u>	<u>57</u>	<u>69</u>	<u>95</u>
Total operating revenues	<u>17,123</u>	<u>16,051</u>	<u>16,471</u>	<u>14,250</u>
Salaries	9,665	8,911	8,056	7,771
Benefits and payroll taxes	2,400	2,297	1,928	1,781
Medical supplies and drugs	1,236	1,185	1,409	1,278
Professional services	1,453	1,423	1,844	1,669
Insurance	380	355	344	400
Depreciation and amortization	1,005	794	358	379
Leases and rentals	148	150	128	124
Other expenses	<u>1,935</u>	<u>1,494</u>	<u>1,426</u>	<u>1,114</u>
Total operating expenses	<u>18,222</u>	<u>16,609</u>	<u>15,493</u>	<u>14,516</u>
Operating income (loss)	(1,099)	(558)	978	(266)
Property tax revenue	411	406	399	345
Sales tax revenue	1,300	1,272	-0-	-0-
Interest income	21	14	12	10
Rent income	1	3	24	-0-
Interest expense	(78)	(104)	(78)	(57)
Gain (loss) on disposition	<u>-0-</u>	<u>12</u>	<u>-0-</u>	<u>(2)</u>
Excess of revenues (expenses) before capital grants & contributions	556	1,045	1,335	30
Capital grants & contributions	<u>241</u>	<u>296</u>	<u>237</u>	<u>217</u>
Increase (decrease) in net position	797	1,341	1,572	247
Net position - beginning of year	7,552	6,211	4,639	4,392
Net position - end of year	<u>\$ 8,349</u>	<u>\$ 7,552</u>	<u>\$ 6,211</u>	<u>\$ 4,639</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Income and Losses

The first component of the overall change in the Medical Center's net assets is its operating income (loss) – generally, the difference between net patient service revenue and other revenue and the expenses incurred to perform those services. In three of the past four years, the Medical Center has incurred losses from operations. This is consistent with the Medical Center's operating history. The Medical Center's hospital operations were begun in 1965 as a municipal hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the parish's lower income residents. Operating income in 2014 decreased by approximately \$541,000 or 96.8% when compared to the operating income reported in 2013. Operating income in 2013 decreased by approximately \$1,536,000 or 157.1% when compared to the operating income reported in 2012. Operating income increased by approximately \$1,244,000 (467.2%) in 2012 compared to a loss reported in 2011.

The primary components of the changes in operating income (loss) are:

- Increases in noncapital grant revenue of \$154,000 (11.2%) in 2014, \$490,000 (55.2%) in 2013 and \$724,000 (440.2%) in 2012. The Hospital received grant revenue of \$717,000, \$1,188,000 and \$286,000 in 2014, 2013 and 2012, respectively, to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. Included in 2014 noncapital grant revenue is \$814,000 from Medicare for meaningful use of electronic health records. Included in 2012 noncapital grant revenue is \$531,000 from Medicaid for meaningful use of electronic health records.
- Net patient revenue increased by \$887,000 (6.1%) in 2014, decreased by \$898,000 (-5.8%) and increased by \$1,523,000 (10.9%) in 2013 and 2012, respectively.
- Total operating expenses increased by \$1,612,000 (9.7%) in 2014, \$1,117,000 (7.2%) in 2013, and \$977,000 (6.7%) in 2012. Debt issuance cost of \$381,450 is included in 2014 operating expenses.
- Total salary and benefits expenses increased \$857,000 (7.6%) in 2014, \$1,224,000 (12.2%) in 2013, and \$432,000 (4.5%) in 2012.

As a percentage of net patient revenue, salary and benefit expenses were approximately 77.8%, 76.7%, and 64.4% for fiscal years 2014, 2013 and 2012, respectively.

The rate of health care inflation has a direct effect on the cost of services provided by the Medical Center. A component of the Medical Center's costs is expenses for medical and professional services. In 2014, professional services cost totaled \$1.453 million (8% of total operating expenses) and an increase of \$30,000 over 2013 costs of \$1.423 million. Medical and professional services decreased by \$421,000 (22.8%) in 2013 and increased by \$174,000 (10.4%) in 2012. The most prominent professional service fees are attributable to contract emergency room physician services. The major fluctuations in salaries and benefits and professional service fees are attributable to changes between emergency room physician employment and contract services.

Sources of Revenue

During fiscal years 2014, 2013, and 2012, the Medical Center derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs as well as payments from patients and other third party payors. Reimbursement from Medicare, Medicaid, and most private insurance payors are based on contracted rates that are less than the Medical Center's

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

established rates. The difference between the established rates charged and the contracted rates collected are recorded as contractual discounts. The Medical Center's net patient revenues reported on the Statement of Revenues, Expenses and Changes in Net Position, are net of contractual discounts, bad debt and charity care charges.

The Louisiana Medicaid disproportionate share hospital program allowed for the reimbursement of uncompensated care costs to small rural hospitals serving a disproportionate number of low-income patients. The reimbursements were calculated based on cost reports filed by the small rural hospitals and were paid by the state from federal funding. Although federal appropriations had enabled the state to pay almost 100 percent of uncompensated costs to rural hospitals over the past several years, there was no assurance federal funding would continue and, therefore, no assurance that the Medical Center would receive any future payments. During the fiscal years ended 2014 and 2013, the Medical Center received no disproportionate share payments compared to \$924,000 in 2012. In addition to the loss of uncompensated care reimbursement, the Medical Center has made provision for recoupment of \$414,000 for 2011.

Table 3 below presents the relative percentages of net patient revenues by payor for the fiscal years ended June 30, 2014, 2013, 2012, and 2011.

Table 3: Payor Mix by Percentage

	Year ended June 30			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	41.81%	42.71%	42.89%	37.98%
Medicaid	14.78%	8.82%	20.75%	27.93%
Commercial	38.53%	37.86%	31.36%	24.87%
Self-pay	4.88%	10.61%	5.00%	9.22%
Total patient revenue	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales and property tax revenue, interest income, and interest expense. In 2007, parish voters approved a ten year property tax to pay expenses related to the Medical Center's ambulance services in the North Caddo Parish Hospital Service District. In April, 2012, parish voters approved a 1% sales tax for twenty-five years beginning July 1, 2012 dedicated for use by the North Caddo Hospital Service District.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Grants and Contributions

The Medical Center receives both capital and operating grants from various state and local agencies for specific programs. These are discussed in detail in note 15 to the financial statements. Grants and contributions for operating purposes are included in total operating revenues. Capital grants and contributions are reported after nonoperating revenues and expenses. Capital grants and contributions include grants and other funds received by the Foundation which are restricted for future capital expenditures. Contributions and fund raising proceeds from the Foundation decreased by \$48,000 (19.6%) in 2014, and increased by \$28,000 (13%) and \$50,000 (29.5%) in 2013 and 2012, respectively. The Foundation's initial period of operation was 2011.

Operating and Financial Performance

The following summarizes some of the Medical Center's patient statistical data from 2014, 2013, 2012 and 2011.

Overall, activity at the Medical Center, as measured by admissions for routine acute care decreased for each year reported. Inpatient admissions decreased by 12.0% in 2014 to 669 from 760, 831, and 895 in 2013, 2012, and 2011, respectively. Acute inpatient days decreased 14.0% in 2014 to 2,538 from 2,953, 3,044, and 3,350 in 2013, 2012, and 2011, respectively. As a result, the average length of stay for acute care patients (excluding newborns) decreased to 3.81 days from 3.83, 3.65, and 3.73 days in 2013, 2012, and 2011, respectively. In order to maintain critical access hospital status for Medicare patients, the Medical Center's average length of stay for acute patients must be below 96 hours or 4 days.

Swing bed admissions increased 10.9% from 110 admissions in 2013 to 122 admissions in 2014. Previous years had swing bed admissions of 104 in 2012 and 107 in 2011. Swing bed patient days increased 46.6% in 2014 to 2,147 from 1,465, 1,715 and 1,232 in 2013, 2012, and 2011, respectively.

The Medical Center operates the district ambulance service that traditionally has had operating losses. The ambulance operation is supported by a 4.61 mil property tax approved by the residents of Caddo parish. The amount of tax revenue received during 2014 was \$411,000, an increase from \$406,000 in 2013.

Emergency room patients decreased slightly from 5,894 in 2013 to 5,676 in 2014. Previous years had emergency room patients of 5,927 in 2012 and 6,923 in 2011.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 4: Patient Statistical Data

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Admissions:				
Acute (excluding newborn)	669	760	831	895
Newborn	86	75	59	53
Swing bed	122	110	104	107
Discharges:				
Acute	667	771	834	898
Swing bed	123	107	106	104
Patient days:				
Acute	2,538	2,953	3,044	3,350
Newborn	200	240	194	161
Swing bed	2,147	1,465	1,715	1,232
Total patient days	4,885	4,658	4,953	4,743
Average length of stay:				
Acute	3.81	3.83	3.65	3.73
Swing bed	17	14	16	12
Medical and Surgical Clinic visits	21,054	20,685	20,082	20,050
Plain Dealing Medical Clinic visits	7,259	7,243	7,894	8,759
Total clinic visits	28,313	27,928	27,976	28,809
Ambulance trips	1,739	1,783	1,041	1,997
Emergency room patients	5,676	5,894	5,927	6,923

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Medical Center had \$8.818 million invested in capital assets, net of accumulated depreciation, as detailed in note 5 to the financial statements. In 2014, the Medical Center purchased capital assets costing \$4.955 million, while depreciation of \$1 million decreased net capital assets.

During 2012 and 2013, the Medical Center committed \$2 million to computer hardware and software purchases for conversion to electronic health records. Also construction in progress in 2014 is related to a new hospital building.

Table 5: Summary of Capital Assets

	June 30,			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 359,961	\$ 339,564	\$ 254,134	\$ 160,222
Land improvements	179,744	179,744	179,744	179,744
Buildings & building improvements	2,385,409	2,146,227	2,215,020	2,215,020
Equipment	6,489,937	6,269,645	4,116,250	3,853,240
Subtotal	9,415,051	8,935,180	6,765,148	6,408,226
Less: Accumulated depreciation	(6,461,143)	(5,459,846)	(4,770,029)	(4,439,600)
Construction in progress	5,864,067	1,388,990	2,033,430	10,985
	<u>\$ 8,817,975</u>	<u>\$ 4,864,324</u>	<u>\$ 4,028,549</u>	<u>\$ 1,979,611</u>

Table 6: Major Additions over \$20,000

Land	\$ 20,397
Building renovations	73,144
Ambulance	131,021
EMR software	25,000
Construction in progress - hospital	4,641,115

Debt

At year-end, the Medical Center had \$7.686 million in notes payable and capital leases outstanding as detailed in note 9 to the financial statements. The Medical Center issued \$6.251 million in bonds and notes payable to finance hospital construction in 2014. Total debt outstanding represents approximately 37.4% of the Medical Center's total assets at June 30, 2014 versus prior years of 12.6%, 25.6% and 15.1% for 2013, 2012, and 2011, respectively.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Economic Factors

Government spending on medical care continues to be a topic of discussion on both the federal and state levels. As a critical access hospital, the Medical Center receives cost based reimbursement for most services provided to Medicare beneficiaries who have traditional coverage. The Medical Center's two physician clinics continue to be reimbursed based on a cost based reimbursement as rural health clinics. The Louisiana Medicaid program is in transition to a managed care payment model. Its effect on future Medicaid patient volume and Medicaid payments cannot be determined. As more fully explained in note 11 in the financial statements, Medicare and Medicaid patient revenues comprise approximately 51% of the Medical Center's net patient revenue.

The American Recovery and Reinvestment Act of 2009 amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Medical Center recognizes EHR incentive payments as revenue when there is reasonable assurance that the Medical Center will comply with the conditions attached to the incentive payments. As the entire EHR incentive payment is received in a lump sum for critical access hospitals and the Hospital must annually attest to increasingly stringent meaningful use criteria, the EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administration of North Caddo Medical Center at 1000 South Spruce Street, Vivian, Louisiana.

**LESTER, MILLER & WELLS***A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

Report on the Financial Statements

We have audited the accompanying combined financial statements of North Caddo Hospital Service District d/b/a North Caddo Medical Center and its affiliate (collectively referred to as the "Medical Center"), a component unit of Caddo Parish Commission, Louisiana, which comprise the combined statements of net position as of June 30, 2014, 2013 and 2012, and related combined statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2014, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the combined financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the Medical Center's combined financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects in relation to the combined financial statements taken as a whole.



Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana
Page Three

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2014, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

November 24, 2014



NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 3,601,326	\$ 2,954,672	\$ 2,710,506
Limited use assets (Note 6)	920,880	-0-	-0-
Net accounts receivable (Note 4)	2,733,478	3,216,567	3,213,942
Other receivables	984,709	156,799	6,283
Inventories	286,151	262,921	256,518
Prepaid expenses	250,438	209,428	199,018
Total current assets	<u>8,776,982</u>	<u>6,800,387</u>	<u>6,386,267</u>
Capital assets, net (Note 5)	<u>8,817,975</u>	<u>4,864,324</u>	<u>4,028,549</u>
Other assets:			
Limited use assets (Note 6)	1,195,303	166,748	-0-
Unamortized election cost (Note 7)	25,230	28,982	30,232
Unamortized loan fees (Note 8)	<u>-0-</u>	<u>-0-</u>	<u>21,814</u>
Total assets	<u>\$ 18,815,490</u>	<u>\$ 11,860,441</u>	<u>\$ 10,466,862</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,845,717	\$ 1,295,507	\$ 1,146,860
Accrued salaries and payroll withholdings	521,136	431,477	251,071
Estimated third-party payor settlements	414,000	486,000	180,400
Current portion of long-term debt (Note 9)	656,088	598,779	608,006
Total current liabilities	<u>3,436,941</u>	<u>2,811,763</u>	<u>2,186,337</u>
Long-term debt (Note 9)	<u>7,029,594</u>	<u>1,496,993</u>	<u>2,069,039</u>
Total liabilities	<u>10,466,535</u>	<u>4,308,756</u>	<u>4,255,376</u>
Net position:			
Invested in capital assets (net of related debt)	1,132,293	2,768,552	1,351,504
Temporarily restricted net assets (Note 6)	2,116,183	166,748	-0-
Unrestricted net assets	5,100,479	4,616,385	4,859,982
Total net position	<u>8,348,955</u>	<u>7,551,685</u>	<u>6,211,486</u>
Total liabilities and net position	<u>\$ 18,815,490</u>	<u>\$ 11,860,441</u>	<u>\$ 10,466,862</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Net patient service revenue (Note 11)	\$ 15,503,099	\$ 14,616,279	\$ 15,514,450
Noncapital grants and contributions	1,531,826	1,377,931	887,859
Other operating revenue	<u>87,596</u>	<u>57,152</u>	<u>68,697</u>
Total operating revenues	<u>17,122,521</u>	<u>16,051,362</u>	<u>16,471,006</u>
Operating Expenses:			
Salaries	9,665,396	8,911,003	8,055,836
Benefits and payroll taxes	2,399,733	2,297,411	1,928,259
Medical supplies and drugs	1,236,197	1,185,329	1,408,946
Professional services	1,452,706	1,423,008	1,843,643
Insurance	379,486	354,826	344,276
Depreciation and amortization	1,005,050	794,089	358,129
Leases and rentals	147,494	149,883	127,545
Other expenses	<u>1,935,493</u>	<u>1,494,205</u>	<u>1,426,418</u>
Total operating expenses	<u>18,221,555</u>	<u>16,609,754</u>	<u>15,493,052</u>
Operating income (loss)	<u>(1,099,034)</u>	<u>(558,392)</u>	<u>977,954</u>
Nonoperating revenues (expenses):			
Gain (loss) on disposition of assets	-0-	12,137	-0-
Interest income	21,525	13,655	12,413
Sales tax revenue (Note 19)	1,299,789	1,272,014	-0-
Property tax revenue	411,006	405,789	398,841
Rent income	1,100	3,028	24,332
Interest expense	<u>(78,062)</u>	<u>(104,309)</u>	<u>(78,202)</u>
Excess of revenues (expenses) before capital grants and contributions	556,324	1,043,922	1,335,338
Capital grants and contributions	<u>240,946</u>	<u>296,277</u>	<u>237,302</u>
Increase (decrease) in net position	<u>797,270</u>	<u>1,340,199</u>	<u>1,572,640</u>
Net position at beginning of year	<u>7,551,685</u>	<u>6,211,486</u>	<u>4,638,846</u>
Net position at end of year	\$ <u>8,348,955</u>	\$ <u>7,551,685</u>	\$ <u>6,211,486</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:			
Cash receipts from and on behalf of patients	\$ 15,914,188	\$ 14,909,397	\$ 14,617,154
Other receipts and payments, net	791,512	1,284,567	1,092,366
Payments to suppliers and contractors	(4,340,404)	(4,470,250)	(4,947,736)
Payments for employees and benefits	<u>(11,930,677)</u>	<u>(11,045,235)</u>	<u>(9,952,721)</u>
Net cash provided (used) by operating activities	<u>434,619</u>	<u>678,479</u>	<u>809,063</u>
Cash flows from investing activities:			
Interest on investments	21,525	13,655	12,413
Rent income	<u>1,100</u>	<u>3,028</u>	<u>24,332</u>
Net cash provided (used) by investing activities	<u>22,625</u>	<u>16,683</u>	<u>36,745</u>
Cash flows from noncapital financing activities:			
Property tax revenues received	411,006	405,789	398,841
Sales tax revenues received	<u>1,299,789</u>	<u>1,272,014</u>	<u>-0-</u>
Net cash provided by noncapital financing activities	<u>1,710,795</u>	<u>1,677,803</u>	<u>398,841</u>
Cash flows from capital and related financing activities:			
Loan financing & election fees	(381,450)	-0-	(37,659)
Purchase of property and equipment	(4,954,948)	(1,624,289)	(581,491)
Acquired assets limited as to use	(1,949,435)	(166,748)	-0-
Proceeds from disposal of assets	-0-	97,842	-0-
Proceeds from issuance of long-term debt	6,251,000	-0-	-0-
Interest paid on long-term debt	(66,408)	(92,584)	(70,659)
Principal payments on long-term debt	(661,090)	(639,297)	(237,053)
Capital grants and contributions	<u>240,946</u>	<u>296,277</u>	<u>237,302</u>
Net cash provided (used) by capital and related financing activities	<u>(1,521,385)</u>	<u>(2,128,799)</u>	<u>(689,560)</u>
Net increase (decrease) in cash and cash equivalents	646,654	244,166	555,089
Beginning cash and cash equivalents	<u>2,954,672</u>	<u>2,710,506</u>	<u>2,155,417</u>
Ending cash and cash equivalents	\$ <u>3,601,326</u>	\$ <u>2,954,672</u>	\$ <u>2,710,506</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ <u>209,473</u>	\$ <u>92,584</u>	\$ <u>70,659</u>
Interest capitalized during the period:	\$ <u>143,065</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Noncash investing, capital, and financing activities:			
Capital lease obligations for buildings & equipment	\$ <u>-0-</u>	\$ <u>58,024</u>	\$ <u>1,797,872</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (717,584)	\$ (558,392)	\$ 977,954
Adjustments to reconcile operating income to net cash flows provided (used) in operating activities:			
Depreciation and amortization	1,005,049	809,089	358,129
Changes in:			
Net accounts receivable	483,089	(2,625)	(530,261)
Other receivables	(827,910)	(150,516)	135,810
Inventories	(23,230)	(6,403)	(24,944)
Prepaid expenses	(41,010)	(35,602)	(42,347)
Accounts payable and accrued expenses	538,556	136,922	257,727
Accrued salaries and payroll taxes	89,659	180,406	33,365
Estimated third-party payor settlements	<u>(72,000)</u>	<u>305,600</u>	<u>(356,370)</u>
Net cash provided (used) by operating activities	\$ <u>434,619</u>	\$ <u>678,479</u>	\$ <u>809,063</u>

See accompanying notes to financial statements.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organizations

North Caddo Hospital Service District, d/b/a North Caddo Medical Center (the "Hospital"), was created by the board of commissioners of Caddo Parish, Louisiana, to operate, control, and manage all matters concerning the area's health care functions. The parish board of commissioners appoints nine voting members to the Hospital governing board, and they may not issue debt or levy taxes without the parish's approval. For this reason, the Hospital is considered to be a component unit of Caddo Parish and is included as a discretely presented component unit in the basic financial statements of the parish.

North Caddo Medical Center Foundation (the "Foundation") was incorporated March 2, 2009, as a Louisiana non-profit organization to aid, strengthen, and further the work and services of the Hospital. The Foundation is included in the Hospital's reporting entity because of the significance of its operations and financial relationship with the Hospital. Collectively, the Hospital and the Foundation are hereafter referred to as the "Medical Center".

Nature of Business

Located in Vivian, Louisiana, the Hospital provides inpatient, outpatient, emergency, and skilled nursing (through swing beds) services primarily for residents of the Vivian area. The Hospital also operates several physician clinics in the area. Admitting physicians are primarily practitioners in the local area.

The Foundation's purpose is to engage in the solicitation, receipt and administration of funds and property, and from time to time, to disburse such funds or property and the income there from, to or for the benefit of the Hospital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Combination

The accompanying financial statements include the accounts and transactions of the Hospital combined with its affiliate, the Foundation. All material intercompany accounts and transactions have been eliminated.

Income Taxes

The Hospital is a political subdivision and exempt from taxation. The Foundation is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 365 days or less. Certificates of deposit with original maturities over 365 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Donor-restricted Gifts

Conditional promises to give and intentions to give (pledges) are reported at fair market value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, designated assets set aside by the Foundation Board, restricted by contributors' designations for capital projects and designated assets set aside by the Hospital Board, over which the Hospital Board retains control and may at its discretion subsequently use for other purposes.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out method, or market basis.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are recorded at cost for purchased assets or at fair market value on the date of any donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Building and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	8 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The Medical Center capitalizes depreciable property and equipment valued at \$5,000 or more, with a useful life greater than two years. The cost of assets retired or otherwise disposed of and related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. During 2014 the Hospital capitalized interest of \$143,065. None of the Medical Center's interest cost was capitalized in 2013 or 2012.

Unamortized Election Cost

Unamortized election costs represent the capitalized costs of elections to levy taxes for the Medical Center's benefit and are being amortized over the life of the related levy.

Net Position

The Medical Center classifies net position into three components: invested in capital assets, net of related debt; restricted and unrestricted. Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Unrestricted are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Resources

When the Medical Center has both restricted and unrestricted resources available for use, it is the Medical Center's policy to use restricted resources first, then unrestricted resources as they are needed.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Medical Center's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Non-exchange revenues, excluding grants and contributions received for purposes of capital asset acquisition, are reported as nonoperating revenues. Nonoperating revenue also includes sales and property taxes passed to provide the Medical Center with revenue to operate and provide medical services in north Caddo Parish.

Grants and Contributions

From time to time, the Medical Center receives grants and contributions from individuals or private and public organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Advertising Costs

The Medical Center expenses advertising costs as incurred.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare and Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital recognizes the EHR incentive payments as revenue when there is a reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. As the entire EHR incentive payment is received in a lump sum for critical access hospitals and the Hospital must annually attest to increasingly stringent meaningful use criteria, the EHR incentive payments are included in noncapital grants in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's estimate and those amounts are subject to change with such changes impacting the period in which they occur.

Credit Risk

The Hospital is located in Vivian, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Hospital's estimate of collectability is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 11. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters, and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classifications.

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. On June 30, 2014, the Hospital had \$2,154,011 that was not covered by pledged collateral or FDIC insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2013 and 2012. The Foundation's deposits were entirely insured at June 30, 2014, 2013, and 2012 except for \$4,180 at June 30, 2013.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value is to changes in market interest rates.

The carrying amounts of deposits and investments are included in the Medical Center's balance sheets as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Carrying Amount			
Deposits	\$ <u>5,717,509</u>	\$ <u>3,121,420</u>	\$ <u>2,710,506</u>
Totals	\$ <u>5,717,509</u>	\$ <u>3,121,420</u>	\$ <u>2,710,506</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 3,601,326	\$ 2,954,672	\$ 2,710,506
Current limited use assets	920,880	-0-	-0-
Other limited use assets	<u>1,195,303</u>	<u>166,748</u>	<u>-0-</u>
Totals	\$ <u>5,717,509</u>	\$ <u>3,121,420</u>	\$ <u>2,710,506</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 4 - ACCOUNTS RECEIVABLE, NET

A summary of net accounts receivable at June 30 is presented below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Hospital patients	\$ 5,734,754	\$ 6,734,338	\$ 7,304,305
Medical and Surgical Clinic	619,704	497,339	637,179
Plain Dealing Clinic	127,375	180,207	129,875
Anesthesiology	20,900	39,449	46,361
Estimated allowances for contractual adjustments	<u>(2,075,341)</u>	<u>(2,195,482)</u>	<u>(2,197,544)</u>
Patient accounts receivable	4,427,392	5,255,851	5,920,176
Estimated third-party settlement	<u>242,321</u>	<u>864,334</u>	<u>675,668</u>
	4,669,713	6,120,185	6,595,844
Estimated uncollectibles	<u>(1,936,235)</u>	<u>(2,903,618)</u>	<u>(3,096,902)</u>
Net accounts receivable	\$ <u>2,733,478</u>	\$ <u>3,216,567</u>	\$ <u>3,498,942</u>

The following is a summary of the mix of gross receivables from patients and third-party payors at June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare	26%	23%	29%
Medicaid	6%	6%	6%
Commercial and other third-party payors	28%	21%	16%
Patients	<u>40%</u>	<u>50%</u>	<u>49%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

NOTE 5 - CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended June 30, 2014, 2013 and 2012 were as follows:

	<u>2013</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2014</u>
Land	\$ 339,564	\$ 20,397	\$ -0-	\$ 359,961
Land improvements	179,744	-0-	-0-	179,744
Buildings and improvements	2,146,227	239,182	-0-	2,385,409
Furniture and equipment	6,269,645	220,292	-0-	6,489,937
Construction in progress	<u>1,388,990</u>	<u>4,714,259</u>	<u>239,182</u>	<u>5,864,067</u>
Totals	10,324,170	5,194,130	239,182	15,279,118
Less accumulated depreciation and amortization	<u>5,459,846</u>	<u>1,001,297</u>	<u>-0-</u>	<u>6,461,143</u>
Capital assets, net	\$ <u>4,864,324</u>	\$ <u>4,192,833</u>	\$ <u>239,182</u>	\$ <u>8,817,975</u>
	<u>2012</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2013</u>
Land	\$ 254,134	\$ 85,430	\$ -0-	\$ 339,564
Land improvements	179,744	-0-	-0-	179,744
Buildings and improvements	2,215,020	35,498	104,291	2,146,227
Furniture and equipment	4,116,250	2,205,825	52,430	6,269,645
Construction in progress	<u>2,033,430</u>	<u>1,201,751</u>	<u>1,846,191</u>	<u>1,388,990</u>
Totals	8,798,578	3,528,504	2,002,912	10,324,170
Less accumulated depreciation and amortization	<u>4,770,029</u>	<u>760,833</u>	<u>71,016</u>	<u>5,459,846</u>
Capital assets, net	\$ <u>4,028,549</u>	\$ <u>2,767,671</u>	\$ <u>1,931,896</u>	\$ <u>4,864,324</u>
	<u>2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2012</u>
Land	\$ 160,222	\$ 93,912	\$ -0-	\$ 254,134
Land improvements	179,744	-0-	-0-	179,744
Buildings and improvements	2,215,020	-0-	-0-	2,215,020
Furniture and equipment	3,853,240	263,010	-0-	4,116,250
Construction in progress	<u>10,985</u>	<u>2,022,445</u>	<u>-0-</u>	<u>2,033,430</u>
Totals	6,419,211	2,379,367	-0-	8,798,578
Less accumulated depreciation and amortization	<u>4,439,600</u>	<u>330,425</u>	<u>(4)</u>	<u>4,770,029</u>
Capital assets, net	\$ <u>1,979,611</u>	\$ <u>2,048,942</u>	\$ <u>4</u>	\$ <u>4,028,549</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
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NOTE 6 - ASSETS LIMITED AS TO USE

The component of assets limited as to use at June 30, is set forth in the following table.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Funds designated for capital assets	\$ 2,116,183	\$ 166,748	\$ -0-
Less: limited use assets required for current liabilities	<u>(920,880)</u>	<u>-0-</u>	<u>-0-</u>
Non-current limited use assets	\$ <u>1,195,303</u>	\$ <u>166,748</u>	\$ <u>-0-</u>

NOTE 7 - UNAMORTIZED ELECTION COST

The following is a summary of unamortized election cost and related amortization, at June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cost of 2008 tax election	\$ 15,943	\$ 15,943	\$ 15,943
Cost of 2012 tax election	22,659	22,659	22,659
Less accumulated amortization	<u>(13,372)</u>	<u>(9,620)</u>	<u>(8,370)</u>
Unamortized cost of tax election	\$ <u>25,230</u>	\$ <u>28,982</u>	\$ <u>30,232</u>

NOTE 8 - UNAMORTIZED LOAN FEES

During fiscal year ended June 30, 2013, the Hospital adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of this new standard resulted in the expense of loan issuance costs in the period incurred. This is a significant change from prior practice which was to record these as assets and amortize them over the life of the related debt issue. The following is a summary of unamortized loan cost and related amortization, at June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Loan origination fees	\$ -0-	\$ -0-	\$ 29,601
Less accumulated amortization	<u>-0-</u>	<u>-0-</u>	<u>7,787</u>
Unamortized loan origination fees	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>21,814</u>

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NOTE 9 - LONG-TERM DEBT

A summary of long-term debt and capital lease obligations at June 30 follows:

	June 30, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2014</u>	Due Within <u>One Year</u>
Capital lease obligations	\$ 1,903,817	\$ -0-	\$ 549,653	\$ 1,354,164	\$ 476,483
Bonds payable	-0-	5,000,000	-0-	5,000,000	-0-
Notes payable	<u>191,955</u>	<u>1,251,000</u>	<u>111,437</u>	<u>1,331,518</u>	<u>179,605</u>
Total	\$ <u>2,095,772</u>	\$ <u>6,251,000</u>	\$ <u>661,090</u>	\$ <u>7,685,682</u>	\$ <u>656,088</u>

	June 30, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2013</u>	Due Within <u>One Year</u>
Capital lease obligations	\$ 2,468,208	\$ 58,024	\$ 622,415	\$ 1,903,817	\$ 500,417
Notes payable	<u>208,837</u>	<u>-0-</u>	<u>16,882</u>	<u>191,955</u>	<u>98,362</u>
Total	\$ <u>2,677,045</u>	\$ <u>58,024</u>	\$ <u>639,297</u>	\$ <u>2,095,772</u>	\$ <u>598,779</u>

	June 30, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2012</u>	Due Within <u>One Year</u>
Capital lease obligations	\$ 888,099	\$ 1,797,872	\$ 217,763	\$ 2,468,208	\$ 531,405
Notes payable	<u>228,127</u>	<u>-0-</u>	<u>19,290</u>	<u>208,837</u>	<u>76,601</u>
Total	\$ <u>1,116,226</u>	\$ <u>1,797,872</u>	\$ <u>237,053</u>	\$ <u>2,677,045</u>	\$ <u>608,006</u>

The terms and due dates of the Hospital's long-term debt, including capital lease obligations, at June 30, 2014 follow:

- Bond anticipation note, series 2013A, at interest rate of 3.25% due on April 18, 2015.
- Bond anticipation note, series 2013B, non-interest bearing due on April 18, 2015.
- Sales tax bonds, series 2013, at interest rate of 4.5% due in annual installments of fixed principal plus interest over 30 years. Collateral is a pledge of 1% sales and use tax proceeds.
- Capital lease obligation, at imputed interest rate of 6% collateralized by building with a cost of \$70,139.
- Capital lease obligations, at varying rates of imputed interest from 0.72% to 5.9% collateralized by equipment with a cost of \$3,200,593.
- 3.25% note payable, principal and interest payable in monthly payments of \$1,837, collateralized by a Hospital savings account with approximate value of \$150,000.

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NOTE 9 - LONG-TERM DEBT (Continued)

Bond covenants include the following:

- Maintain sales tax fund in a separate and special bank account for all sales tax revenue.
- Make monthly deposits equal to the pro-rata portion of the next principal and/or interest payment into a sales tax bond sinking fund.
- Establish and maintain "Series 2013 Sales Tax Bond Reserve Fund" with monthly deposits until said fund has accumulated up to stipulated level.
- Sales Tax Fund, Sinking Fund and 2013 Reserve Fund are to be invested in the manner provided by Louisiana law in obligations maturing in five years or less.
- Maintain complete and accurate records and have an annual audit.

The bond covenants related to separate bank accounts and reserve funds were completed after year end.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30,	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 179,610	\$ 225,384	\$ 474,581	\$ 34,515
2016	1,437,252	215,745	427,337	20,787
2017	194,920	207,427	389,215	9,418
2018	201,736	198,727	8,961	3,399
2019	190,000	190,035	2,833	3,167
2020 - 2024	1,087,000	810,877	17,011	12,989
2025 - 2029	1,354,000	537,300	22,945	8,152
2030 - 2034	<u>1,687,000</u>	<u>196,537</u>	<u>11,281</u>	<u>719</u>
Totals	\$ <u>6,331,518</u>	\$ <u>2,582,032</u>	\$ <u>1,354,164</u>	\$ <u>93,146</u>

NOTE 10 - COMMITMENTS UNDER NONCANCELABLE OPERATING LEASES

The Hospital is committed under various noncancelable operating leases, all of which are for real estate and equipment. These expire in various years through 2018. Future minimum operating lease payments are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2015	\$ 119,725
2016	58,031
2017	35,404
2018	17,084
2019	<u>-0-</u>
Total	\$ <u>230,244</u>

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NOTE 11 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare – Effective July 1, 2001, the Hospital became a “Critical Access Hospital” (CAH). This designation enables the Hospital to receive cost based reimbursement for most services provided to Medicare beneficiaries who have traditional coverage. Rural health clinic services primarily continue to be reimbursed based on a cost based methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital’s classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital’s cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

Medicaid – Medicaid inpatient acute services are reimbursed based on a prospectively determined per diem rate. Some Medicaid outpatient services are reimbursed under a cost reimbursement methodology, while others are paid on a prospectively determined fee schedule. The Hospital is reimbursed at a tentative rate for cost based services with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital’s cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2010.

Commercial – The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Hospital’s previous reimbursements are also subject to review by Medicare and Medicaid representatives. These representatives have several initiatives in progress. No material liabilities have been identified to date under these review programs; however, the potential exists for future claims. These will be recognized in the year the amounts are determined, if any.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics.

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NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE 11 - NET PATIENT SERVICE REVENUE (Continued)

Additionally, the Hospital foregoes charges relating to Medicare, Medicaid and other third-party payors. Following is a schedule of patient service revenue at established rates and charges foregone for the years ended June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Gross patient service charges	\$ 30,805,989	\$ 28,764,989	\$ 28,694,017
Deductions from patient charges:			
Contractual adjustments	12,520,555	10,880,982	11,009,070
Uncompensated care reimbursement, net of recoveries	(72,000)	305,600	(924,342)
Provision for bad debts	2,797,660	2,910,176	3,021,954
Charity care	<u>56,675</u>	<u>51,952</u>	<u>72,885</u>
Total deductions from patient charges	<u>15,302,890</u>	<u>14,148,710</u>	<u>13,179,567</u>
Net patient service revenue	\$ <u>15,503,099</u>	\$ <u>14,616,279</u>	\$ <u>15,514,450</u>

The Hospital receives a substantial portion of its revenue from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare and Medicaid gross patient charges	\$ 14,763,556	\$ 13,704,162	\$ 16,894,483
Contractual adjustments	<u>6,886,698</u>	<u>6,762,752</u>	<u>7,609,774</u>
Program patient service revenue without UCC	\$ <u>7,876,858</u>	\$ <u>6,941,410</u>	\$ <u>9,284,709</u>
Percent of total gross patient charges	<u>48%</u>	<u>48%</u>	<u>59%</u>
Percent of net patient revenue	<u>51%</u>	<u>47%</u>	<u>60%</u>

The Hospital experiences differences between the amounts initially recorded on its cost settlements with Medicare and Medicaid and the finalized amounts. These adjustments resulted in an increase in 2014 of \$9,800, a decrease of \$134,800 in 2013 and an increase of \$67,700 in 2012 in net patient service revenue.

The Hospital received interim payments of \$-0-, \$-0-, and \$924,342, for Medicaid and uninsured uncompensated care services (UCC) during the years ended June 30, 2014, 2013, and 2012, respectively, which represents 0%, 0%, and 6% of net patient service revenues, respectively. The interim payments received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped after audit by Medicaid. The federal definition of UCC changed effective July 1, 2010, which reduced income in 2011 and for future years. The Hospital has made provision for recoupment of \$414,000 for fiscal year 2011. With the exception of 2011, management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

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NOTE 12 - COMPENSATED ABSENCES

As of June 30, 2014, 2013, and 2012, the Hospital has accrued a compensated absence liability of \$347,905, \$303,112, and \$316,465, respectively. The Hospital pays accrued vacation absences upon termination, if proper notice and termination procedures are followed.

NOTE 13 - PENSION PLAN

Plan description - The Hospital contributes to the Parochial Employees' Retirement System of Louisiana, a Public Employee Retirement System (the Plan), that is a cost sharing multiple-employer plan established by the Louisiana legislature as of January 1, 1953, by Act 205 of 1952. The system was revised by Act No. 765 of 1979, effective January 1, 1980, to replace the "regular plan" with the Plan B Fund of which the Hospital is a participant. Plan B provides retirement, disability and death benefits to plan members and beneficiaries. The Retirement System is governed by the Louisiana Revised Statutes, Title 11, Sections 1901 through 2015, specifically, and other general laws of the State of Louisiana.

The Parochial Employees' Retirement System of Louisiana issues a publicly available financial statement report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing the Parochial Employees' Retirement System of Louisiana, 7905 Wrenwood Boulevard, Baton Rouge, Louisiana, 70809.

Plan funding - Employer and employee contributions to the Plan are established by state statute. Employee contributions are three percent (3%) of covered wages for each of the years ended June 30, 2014, 2013, and 2012. Employer contributions are ten percent (10%) of covered wages for each of the years ended June 30, 2014, 2013, and 2012. In addition to the aforementioned contributions the tax collectors of various parishes contribute one fourth of one percent of all tax collections.

The following is a schedule that summarizes information regarding the multiple employer defined benefit retirement plan in effect for the years ended June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total payroll	\$ 9,665,396	\$ 8,911,003	\$ 8,055,836
Total covered payroll	7,587,504	7,350,988	6,549,083
Employee contributions	225,721	220,128	194,449
Employer contributions	\$ 725,141	\$ 735,099	\$ 654,908

NOTE 14 - CONTINGENCIES

The Medical Center evaluates contingencies based upon the best available evidence. To the extent that resolution of contingencies results in amounts which vary from the Medical Center's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 11) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as

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NOTE 14 - CONTINGENCIES (Continued)

well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare programs, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determination. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as privacy, licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional and General Liability Risk - Under current Louisiana law, the Hospital's liability for medical malpractice is statutorily limited to \$500,000 per claim. To cover this exposure, the Hospital has obtained insurance coverage of \$100,000 per claim with the Louisiana Hospital Association Malpractice and General Liability Trust and an additional \$400,000 per claim with the State of Louisiana Patient's Compensation Fund.

The Hospital is a participant of the Louisiana Hospital Association Malpractice and General Liability Trust (the Trust) and Workers' Compensation Interlocal Risk Management Agency (the Agency). These trust funds retrospectively set premiums for members based on the loss history of each entire group. The Hospital expenses premiums paid to these multi-provider captive insurance companies over the policy periods covered.

According to the trust document for the Trust, participants are jointly and severally liable for the obligations of the Trust with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Trust. This contingent liability is not to exceed the amount necessary to make up trust fund deficiencies in the trust fund year in which the obligations were incurred, and such liability is not to exceed an amount equal to the charges otherwise due by such participant during such plan year.

According to the trust documents for the Agency, participants are liable jointly and in solido for claims not paid pursuant to Subpart J of Part I of Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, with the right of indemnity among the participants for each participant's pro rata share of the obligation as formulated in the trust document. Each participant has this contingent assessment liability for the payment of actual losses and expenses incurred while a participant in the Fund, but only to the extent that such losses and expenses are not paid by the excess coverage secured by the Fund.

Management does not believe that any significant contingent liabilities exist under these insurance arrangements.

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NOTE 14 - CONTINGENCIES (Continued)

Workers' Compensation Liability Risk - The Hospital became self-funded with respect to unemployment claims effective October 1, 1998. As a self-funded employer, the Hospital must reimburse the Louisiana Department of Labor on a dollar-for-dollar basis for unemployment benefits paid to former employees. The Hospital reimbursed the Louisiana Department of Labor \$12,156, \$1,972, and \$1,279 for claims paid on behalf of the Hospital during the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

Management does not believe that any significant contingent liabilities exist under this arrangement.

NOTE 15 - GRANT REVENUE

The Hospital received grant revenue of \$717,345, \$1,188,382 and \$286,114 in 2014, 2013 and 2012, respectively, to be used solely to provide adequate and essential medically necessary health care services to the citizens in its community who are low income and/or indigent patients. As a condition of the grant agreement, the Hospital, along with the other participating hospitals, has agreed to indemnify the grantors for claims that may arise out of this grant agreement.

The Hospital recognized operating grant revenue of \$814,481 from Medicare during the year ended June 30, 2014, as an incentive for implementing electronic health records (EHR). The Hospital recognized operating grant revenue of \$530,743 from Medicaid during the year ended June 30, 2012. The key component of receiving the EHR incentive payments is "demonstrating meaningful use," which is meeting a series of objectives that make use of an EHR's potential related to the improvement of quality, efficiency, and patient safety. The Centers for Medicare and Medicaid Services has indicated that demonstrating meaningful use will be phased in during the next few years in three stages, with each progressive stage incorporating more stringent measures. The EHR revenues each year are based on management's best estimate. The EHR incentive payments are reimbursed at a tentative rate with final settlement determined after submittal of the annual cost reports and audits thereof by the fiscal intermediaries.

Other operating grant revenue in 2013 included \$75,000 from LSU Health Shreveport related to the rural family practice residency program and \$43,500 from the State of Louisiana for Plain Dealing clinic facility planning. Other operating grant revenue received during 2013 and 2012 was from the town of Vivian for the school nurse program.

Nonoperating grants received during 2014, 2013 and 2012 were from Department of Health and Human Services for emergency preparedness and from the State of Louisiana for Plain Dealing clinic facility renovations.

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NOTE 16 - NORTH CADDO MEDICAL CENTER FOUNDATION (AFFILIATE)

The accompanying combined financial statements include the accounts of the Foundation, with intercompany accounts eliminated. Foundation contributions received of \$195,855, \$245,707, and \$217,341 are included in capital grants and contributions for the years ended June 30, 2014, 2013, and 2012, respectively. Medical Center support of operational expenses for the Foundation were \$21,047, \$25,310 and \$22,992 during years ended June 30, 2014, 2013 and 2012, respectively.

Following is a summary of net assets and results of operations of the Foundation as of June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Cash and cash equivalents	\$ 87,125	\$ 87,431	\$ 108,158
Prepaid expenses	3,500	2,500	2,500
Limited use assets	<u>333,691</u>	<u>166,748</u>	<u>-0-</u>
Total assets	\$ <u>424,316</u>	\$ <u>256,679</u>	\$ <u>110,658</u>
LIABILITIES AND NET ASSETS			
Net assets	\$ <u>424,316</u>	\$ <u>256,679</u>	\$ <u>110,658</u>
Total liabilities and net assets	\$ <u>424,316</u>	\$ <u>256,679</u>	\$ <u>110,658</u>
REVENUE			
Contribution revenue	\$ 195,855	\$ 245,707	\$ 217,341
Interest income	<u>2,199</u>	<u>525</u>	<u>542</u>
Total revenue	198,054	246,232	217,883
EXPENSES			
Grants to Hospital	8,620	74,251	191,242
Fundraising and administrative expense	<u>21,797</u>	<u>25,960</u>	<u>23,642</u>
Excess of revenue over expenses	167,637	146,021	2,999
Beginning net assets	<u>256,679</u>	<u>110,658</u>	<u>107,659</u>
Ending net assets	\$ <u>424,316</u>	\$ <u>256,679</u>	\$ <u>110,658</u>

NOTE 17 - CHARITY CARE

The Hospital provides charity care to patients who are financially unable to pay for part or all of the healthcare services they receive. The patient will either qualify for 100% charity care or owe a portion based on the patient's level of income. Accordingly, the Hospital does not report the amounts it expects not to collect in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including wages and related benefits, supplies and other operating expenses. The costs of caring for charity care patients were approximately \$31,200, \$17,600, and \$24,700 for the years ended June 30, 2014, 2013, and 2012, respectively. Funds received through UCC and grants, which pay part of the cost of charity and uninsured

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care, were approximately \$717,345, \$1,188,382 and \$286,194 for the years ended June 30, 2014, 2013 and 2012, respectively. Charges for services and supplies furnished to patients who may qualify for charity care but are not documented according to Hospital policy are included in bad debt expense.

NOTE 18 - RELATED PARTY TRANSACTIONS

The Hospital has entered into a management contract with Willis-Knighton Medical Center (WKMC), a large metropolitan health care provider operating in Shreveport and Bossier City, Louisiana. Under this contract, WKMC has agreed to manage the operations of the Hospital and to provide the Hospital with a qualified administrator. The administrator is an employee of WKMC and acts on behalf of WKMC in the Hospital's best interest. The contract is on a monthly basis and requires that the Hospital reimburse WKMC for the salary and benefits of the Hospital's administrator.

On February 21, 2008, the Hospital acquired the Vivian, Louisiana Medical and Surgical Clinic from WKMC. The transaction involved the Hospital issuing two promissory notes to WKMC, one for the purchase price of the clinic's receivables, \$248,891, and the other for the purchase price of the clinic's equipment and furnishings, \$95,956. The receivables note bears interest at 8 percent per annum and at June 30, 2010, its balance, \$23,000, was past due, but was fully paid by June 30, 2011. The equipment and furnishings note is secured by the equipment and furnishings purchased, bears interest at 8 percent per annum, is payable monthly over a seven-year period ending February 25, 2015, and had an outstanding balance of \$92,463 at June 30, 2014.

The Hospital entered into an operating lease with WKMC for the Vivian Medical and Surgical Clinic building. The lease terms provide for monthly rentals of \$6,420 for five years through January 31, 2013 with an automatic one year renewal. Rental expense on this lease during the years ended June 30, 2014, 2013 and 2012 was \$77,038 for each year.

In March 2009, the Hospital entered into an operating lease with WKMC for the Plain Dealing Medical and Surgical Clinic building. The lease terms provided for monthly rentals of \$750 for three years through March 14, 2012 with an automatic one year renewal. This lease was converted to a capital lease in December 2009. The term of the lease was amended to twenty years through March 14, 2029. The lease bears interest at 6 percent per annum and at June 30, 2013 its balance was \$96,844. During the year ended June 30, 2013, the Hospital moved the Plain Dealing clinic to another location, surrendered the WKMC building and terminated the lease.

During the years ended June 30, 2014, 2013, and 2012, the Hospital incurred, \$260,351, \$273,125 and \$288,563, respectively, for the administrator's salary and benefits, laundry services and various patient services with WKMC.

At June 30, 2014, 2013, and 2012, the Hospital owed WKMC \$206,491, \$185,948 and \$333,474, respectively, for various services and supplies, which is included in accounts payable.

NOTE 19 - SALES TAX REVENUE

Effective July 1, 2012, the North Caddo Hospital Service District began collecting a one percent (1%) sales tax dedicated for use by the Hospital. The sales tax was approved for 25 years and the Hospital intends to use the sales tax proceeds to fund debt service associated with construction of a new hospital facility. Any remaining sales tax levy amounts received may be used for Hospital operations.

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NOTES TO COMBINED FINANCIAL STATEMENTS
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NOTE 20 - SUBSEQUENT EVENTS

Events have been evaluated through November 24, 2014, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

NORTH CADDO HOSPITAL SERVICE DISTRICT,
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COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Daily patient services:			
Routine services	\$ 1,346,125	\$ 1,610,244	\$ 1,693,411
Swing bed	648,305	439,650	527,400
Obstetrics	<u>292,825</u>	<u>200,566</u>	<u>138,710</u>
Total daily patient services	<u>2,287,255</u>	<u>2,250,460</u>	<u>2,359,521</u>
Other professional services:			
Cardiac monitor			
Inpatient	-0-	865	1,730
Outpatient	<u>425</u>	<u>-0-</u>	<u>-0-</u>
Total cardiac monitor	<u>425</u>	<u>865</u>	<u>1,730</u>
Operating room			
Inpatient	19,750	49,356	52,151
Outpatient	<u>268,240</u>	<u>282,705</u>	<u>277,528</u>
Total operating room	<u>287,990</u>	<u>332,061</u>	<u>329,679</u>
Anesthesia			
Inpatient	115,890	90,920	89,641
Outpatient	<u>168,136</u>	<u>127,650</u>	<u>164,921</u>
Total anesthesia	<u>284,026</u>	<u>218,570</u>	<u>254,562</u>
Radiology			
Inpatient	144,094	163,388	207,020
Outpatient	<u>795,313</u>	<u>868,638</u>	<u>883,599</u>
Total radiology	<u>939,407</u>	<u>1,032,026</u>	<u>1,090,619</u>
Ultrasound			
Inpatient	48,709	83,206	70,060
Outpatient	<u>269,426</u>	<u>230,932</u>	<u>244,633</u>
Total ultrasound	\$ <u>318,135</u>	\$ <u>314,138</u>	\$ <u>314,693</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
CT scans & nuclear medicine			
Inpatient	\$ 487,639	\$ 528,436	\$ 462,737
Outpatient	<u>2,238,571</u>	<u>2,454,064</u>	<u>2,177,754</u>
Total CT scans & nuclear medicine	<u>2,726,210</u>	<u>2,982,500</u>	<u>2,640,491</u>
MRI			
Inpatient	35,150	64,100	59,550
Outpatient	<u>455,700</u>	<u>545,300</u>	<u>332,150</u>
Total MRI	<u>490,850</u>	<u>609,400</u>	<u>391,700</u>
Laboratory & blood			
Inpatient	1,843,776	1,719,634	1,807,413
Outpatient	<u>2,077,475</u>	<u>2,228,442</u>	<u>2,112,236</u>
Total laboratory & blood	<u>3,921,251</u>	<u>3,948,076</u>	<u>3,919,649</u>
Respiratory care			
Inpatient	753,440	650,752	769,887
Outpatient	<u>195,257</u>	<u>216,403</u>	<u>250,892</u>
Total respiratory care	<u>948,697</u>	<u>867,155</u>	<u>1,020,779</u>
Physical, occupational and speech therapy			
Inpatient	747,843	436,671	378,019
Outpatient	<u>10,072</u>	<u>4,555</u>	<u>-0-</u>
Total physical, occupational and speech therapy	<u>757,915</u>	<u>441,226</u>	<u>378,019</u>
EKG and EEG			
Inpatient	217,430	206,115	245,770
Outpatient	<u>410,685</u>	<u>425,927</u>	<u>460,739</u>
Total EKG and EEG	\$ <u>628,115</u>	\$ <u>632,042</u>	\$ <u>706,509</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Central supply			
Inpatient	\$ 1,166,796	\$ 1,238,916	\$ 1,265,298
Outpatient	<u>96,551</u>	<u>132,478</u>	<u>98,476</u>
Total central supply	<u>1,263,347</u>	<u>1,371,394</u>	<u>1,363,774</u>
Pharmacy			
Inpatient	2,412,512	1,363,006	1,959,572
Outpatient	<u>1,074,264</u>	<u>728,349</u>	<u>944,972</u>
Total pharmacy	<u>3,486,776</u>	<u>2,091,355</u>	<u>2,904,544</u>
Emergency and treatment room			
Inpatient	193,884	513,862	1,540,114
Outpatient	<u>4,901,824</u>	<u>4,393,003</u>	<u>3,102,838</u>
Total emergency and treatment room	<u>5,095,708</u>	<u>4,906,865</u>	<u>4,642,952</u>
Other outpatient services			
Ambulance	985,976	1,012,211	1,108,493
Physicians and surgeons clinic	4,943,635	4,338,440	3,999,936
Plain Dealing clinic	1,305,014	1,258,920	1,148,379
HealthPlex & Kidmed	68,850	89,081	75,651
Fitness center	<u>66,407</u>	<u>68,204</u>	<u>42,337</u>
Total other outpatient services	<u>7,369,882</u>	<u>6,766,856</u>	<u>6,374,796</u>
Total other professional services	<u>28,518,734</u>	<u>26,514,529</u>	<u>26,334,496</u>
Gross patient service charges	<u>30,805,989</u>	<u>28,764,989</u>	<u>28,694,017</u>
Deductions from patient charges:			
Contractual adjustments	12,520,555	10,880,982	11,009,070
Uncompensated care reimbursement, net of recoveries	(72,000)	305,600	(924,342)
Provision for bad debts	2,797,660	2,910,176	3,021,954
Charity care	<u>56,675</u>	<u>51,952</u>	<u>72,885</u>
Total deductions from patient charges	<u>15,302,890</u>	<u>14,148,710</u>	<u>13,179,567</u>
Net patient service revenue	\$ <u>15,503,099</u>	\$ <u>14,616,279</u>	\$ <u>15,514,450</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OTHER OPERATING REVENUE
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cafeteria	\$ 23,513	\$ 30,482	\$ 40,443
Medical records fees	4,593	4,011	3,549
Vending	3,396	2,874	2,117
Miscellaneous	<u>56,094</u>	<u>19,785</u>	<u>22,588</u>
Total other operating revenue	\$ <u>87,596</u>	\$ <u>57,152</u>	\$ <u>68,697</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Salaries:			
Routine nursing	\$ 1,687,747	\$ 1,647,790	\$ 1,396,516
Obstetrics	40,692	19,954	29,567
Cardiac care	7,422	5,007	-0-
Nursing administration	172,403	116,535	156,757
Education	3,549	19,484	9,109
Operating room	5,255	6,029	10,155
Anesthesiology	272,342	256,658	232,363
Radiology	185,232	205,258	256,106
Ultrasound	7,953	8,419	8,548
CT scan	62,597	64,442	64,928
Laboratory	485,701	451,908	470,083
Respiratory therapy	334,625	276,090	239,629
Physical therapy	189,373	103,073	-0-
Cardiology	-0-	2,133	-0-
Central supply	89,868	82,406	82,832
Pharmacy	189,662	160,893	149,653
Physicians and surgeons clinic	2,146,108	2,025,804	1,933,979
Plain Dealing clinic	642,981	532,715	565,193
Emergency room	537,041	410,709	140,286
Treatment room	1,832	1,481	813
Ambulance	583,685	536,279	504,483
HealthPlex	90,629	90,091	77,278
School nurse	69,540	109,820	62,749
Fitness center	78,337	80,277	59,433
Medical records	166,782	156,671	157,300
Maintenance	148,448	155,590	195,251
Housekeeping	284,243	253,950	228,383
Dietary	270,698	219,605	214,068
Administration	910,651	911,932	810,374
Total salaries	<u>9,665,396</u>	<u>8,911,003</u>	<u>8,055,836</u>
Benefits and payroll taxes:			
Retirement	725,141	807,915	650,879
Payroll taxes	612,815	592,382	534,544
Health, life and disability insurance	953,844	792,158	665,097
Workers compensation	95,777	102,984	76,460
Unemployment benefits	12,156	1,972	1,279
Total benefits and payroll taxes	<u>2,399,733</u>	<u>2,297,411</u>	<u>1,928,259</u>
Total salaries and benefits	\$ <u>12,065,129</u>	\$ <u>11,208,414</u>	\$ <u>9,984,095</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Routine nursing	\$ 118,627	\$ 119,252	\$ 151,081
Obstetrics	26,333	21,835	12,453
Cardiac care	5,780	4,035	6,721
Operating room	7,355	60,933	77,604
Anesthesiology	2,646	8,713	7,426
Radiology	11,807	11,076	11,405
Ultrasound	944	2,503	247
MRI	2,673	3,853	3,558
CT scan	52,235	20,450	24,268
Laboratory	220,842	242,114	247,140
Respiratory therapy	79,457	76,854	79,885
Physical therapy	6,371	-0-	-0-
Central supply	11,107	23,009	45,004
Pharmacy	355,951	282,314	400,850
Cardiology	338	533	364
Physicians and surgeons clinic	131,112	124,149	105,568
HealthPlex	7,747	10,803	6,686
Plain Dealing clinic	55,061	49,252	48,697
School nurse	85	861	1,510
Ambulance	23,319	17,412	37,221
Emergency room	71,615	68,645	83,739
Treatment room	27,348	15,846	28,098
Fitness center	<u>17,444</u>	<u>20,887</u>	<u>29,421</u>
 Total medical supplies and drugs	 \$ <u>1,236,197</u>	 \$ <u>1,185,329</u>	 \$ <u>1,408,946</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL SERVICES
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

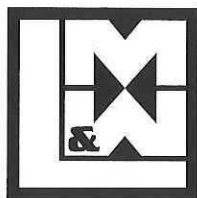
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Administrative and computer	\$ 269,259	\$ 188,231	\$ 177,811
Legal and professional fees	272,996	215,066	196,953
Board member fees	-0-	5,200	10,200
Laundry purchased services	52,011	54,641	67,897
Dietary	492	21,562	30,067
Routine nursing & obstetrics	-0-	5,040	40,211
Residents	54,743	68,621	53,881
Anesthesiology	48,953	24,016	22,980
Radiology	1,431	3,775	-0-
MRI	81,119	97,669	89,854
Ultrasound	60,976	50,736	50,000
CT scan	-0-	2,690	2,478
Laboratory	59,468	69,627	135,897
Respiratory therapy	4,350	4,050	13,200
Physical therapy	59,443	57,685	224,571
Pharmacy	-0-	5,973	14,190
HealthPlex	150	592	12,888
Emergency room	487,165	545,039	700,565
Treatment room	-0-	2,085	-0-
Fitness center	150	710	-0-
	<u>150</u>	<u>710</u>	<u>-0-</u>
Total professional services	\$ <u>1,452,706</u>	\$ <u>1,423,008</u>	\$ <u>1,843,643</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
COMBINED SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED JUNE 30, 2014, 2013 AND 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Miscellaneous purchased services	\$ 194,003	\$ 150,371	\$ 101,567
Marketing	38,665	15,138	59,390
Non-medical supplies	529,590	444,331	410,000
Dietary food expense	158,972	160,493	177,178
Maintenance and repairs	191,882	256,269	208,245
Utilities	152,050	128,843	124,333
Telephone	95,659	96,211	104,861
Travel and education	77,385	71,499	86,697
Dues and subscriptions	45,072	74,745	63,848
Postage	14,644	26,432	31,697
Sales and property taxes	16,255	14,773	546
Debt issuance cost	381,450	-0-	-0-
Grant expenses	9,417	7,568	4,059
Foundation fundraising & special events	26,495	27,595	38,247
Miscellaneous expense	<u>3,954</u>	<u>19,937</u>	<u>15,750</u>
 Total other expenses	 \$ <u>1,935,493</u>	 \$ <u>1,494,205</u>	 \$ <u>1,426,418</u>

NORTH CADDO HOSPITAL SERVICE DISTRICT,
d/b/a NORTH CADDO MEDICAL CENTER AND AFFILIATE
SCHEDULE OF PER DIEM AND
OTHER COMPENSATION PAID TO HOSPITAL BOARD MEMBERS
YEAR ENDED JUNE 30, 2014

Compensation (including per diem) Paid to Hospital Board Members:	<u>Per Diem</u>	<u>Mileage</u> <u>Reimbursement</u>	<u>Total</u> <u>Compensation</u>
Helen Adger	\$ 1,200	\$ -0-	\$ 1,200
Kenneth Clay	1,100	-0-	1,100
Robert Green, Jr.	1,100	-0-	1,100
Mary Irvin	1,000	-0-	1,000
David Norman	1,200	-0-	1,200
Brenda Smith	1,200	600	1,800
Bruce Walker	1,000	-0-	1,000
Patricia White	1,200	-0-	1,200
Earl Williamson, Jr.	<u>1,000</u>	<u>-0-</u>	<u>1,000</u>
	\$ <u>10,000</u>	\$ <u>600</u>	\$ <u>10,600</u>



LESTER, MILLER & WELLS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
North Caddo Hospital Service District
Vivian, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the combined financial statements of the business-type activities of the North Caddo Hospital Service District d/b/a North Caddo Medical Center and its affiliate (the "Medical Center"), a component unit of Caddo Parish Commission, Louisiana, as of and for the years ended June 30, 2014, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies. 2014-01 and 2014-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. 2014-03 and 2014-04.

Medical Center Response to Findings

The Medical Center's response to the findings identified in our audit is described in the accompanying schedule of findings. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and the office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana

November 24, 2014



North Caddo Hospital Service District
Schedule of Findings
Year Ended June 30, 2014

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified - No
- Significant deficiencies identified - Yes

Compliance

- Noncompliance issue noted - Yes

Management letter issued - No

Federal Awards - Not applicable

Section II. Findings

FINDING 2014-01 – Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes: 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend written procedures for added close supervision and review.

Response: Management will continue to segregate duties as much as possible and will closely supervise and review performance to prevent errors and misappropriations.

FINDING 2014-02 – Account Reconciliations

Finding: Routine monthly reconciliation of several general ledger accounts including payroll checking did not detect posting errors.

Recommendation: We recommend that reconciliations during month end close procedures are performed regularly as well as reviewed and approved by another member of management. Minor variances should be investigated and resolved rather than passed as "immaterial."

Response: Accountants will begin to scrutinize all balance sheet accounts for reconciliation of the general ledger balances to underlying source documents.



North Caddo Hospital Service District
Schedule of Findings
Year Ended June 30, 2014

FINDING 2014-03 – Custodial Credit Risk

Finding: Bank accounts were created at Citizens National Bank as a result of bond financing activity and the new bank accounts were not flagged as governmental accounts for pledged securities by the bank.

Recommendation: Louisiana Statute R.S. 39:1225 requires that all of the Hospital's deposits be protected by FDIC insurance or pledged securities as collateral. The market value of collateral pledged must equal or exceed 100% of the deposits not covered by insurance. Bank account balances should be reviewed monthly to ensure that they are fully secured and that the types of securities pledged by the financial institutions are in accordance with state law.

Response: Management has obtained pledged securities and will continue to monitor the level of pledged securities needed on a monthly basis.

FINDING 2014-04 – Bond Covenants

Finding: Bond covenants require a Sales Tax Fund, Series 2013 Sales Tax Bond Reserve Fund and Sales Tax Bond Sinking Fund which were not initiated until October 2014.

Recommendation: We recommend that management work with bond counsel and become familiar with all bond and related loan agreements to make the appropriate fund transfers as soon as possible.

Response: Management was aware of bond covenants but was uncertain as to the timeline for implementation. Bank accounts have already been established. The funds will be transferred as soon as the amount is calculated. Management has contacted the Caddo Parish Sales Tax Department to change automatic deposit of all net sales tax revenue to the new sales tax fund.

Section III. Federal Awards Findings and Questioned Costs

Not applicable

Section IV. Management Letter

Not applicable



North Caddo Hospital Service District
Schedule of Prior Year Findings
Year Ended June 30, 2014

Section I. Findings

FINDING 2013-01 – Segregation of Duties

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes: 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend written procedures for added close supervision and review.

Response: Management will continue to segregate duties as much as possible and will closely supervise and review duties to prevent errors.

Resolution: This matter has not been resolved. See Finding 2014-01

Section II. Federal Award Findings and Questioned Costs

Not applicable

Section III. Management Letter

Not applicable

